

AR78



Financial Summary

	1972	1971 (Restated)
Sales — increased 4.8%	\$100,542,000	95,926,000
Earnings before extraordinary item —		
Decreased 67.4%	547,000	1,679,000
Extraordinary item	104,000	—
Net earnings — decreased 61.2%	\$ 651,000	1,679,000
Per common share:		
Before extraordinary item		
Net earnings	\$.14	.45
Cash earnings	.44	.74
Including extraordinary item		
Net earnings	.17	.45
Cash earnings	.47	.74
Net worth	5.20	5.27
Dividends paid	.20	18 ^{3/4}
Return on shareholders' equity January 1	2.7%	8.9%
Capital expenditures — net	\$ 2,270,000	1,791,000

Emco is a key contributor to the vital networks of flow systems that move the water, fuels, petro chemicals and wastes of the world community to their proper destinations.

To Our Shareholders

1972 was a poor year for Emco as earnings decreased from \$1,679,000 to \$547,000, being 14.5 cents per common share, compared to 44.5 cents (restated) in 1971. In addition, profit on the sale of real estate increased earnings by 2.7 cents per share.

Pre-tax profits of the Canadian Plumbing and Industrial Group show an improvement of 9% over the previous year; however, the results of the Engineered Products Group reflect a loss of \$99,000, compared to the pre-tax profit of \$1,218,000 in 1971. While the results for the whole Group were down, the major contributor to the poor showing continued to be our U.S. subsidiary. In the U.S., substantial losses were incurred as a result of inventory write-offs and reserves, to a large extent caused by changing product requirements of the oil companies, occasioned by demands of various states for stringent pollution control in the distribution of their products. The decision of your management was to reflect this loss in 1972, thereby penalizing earnings; however, we believe the way is now cleared for significantly improved results in this Group.

Although earnings before income taxes are down 41%, after-tax earnings decreased 67% as a result of the requirement that income taxes be provided for on the taxable income of each profitable company within the organization. Despite a slowdown in activity during the last quarter of 1972, the residential sector of the construction industry showed a record year in terms of housing starts with the commencement of over 250,000 units.

A relatively high carry-over of work from 1972 has sustained an above-average level of activity during the first two months of 1973, and it would appear that the market will continue to be buoyant until the middle of the year. There is some indication, as we move into the latter half of 1973, that a moderate decline in the availability of private funds for residential mortgages will occur. However, the anticipated increase in non-residential con-

struction, particularly in the commercial and industrial sectors, will provide the necessary impetus for a continuation of the current construction boom. A major concern is the growing shortage of serviced land which has stalled development and created a problem in filling some of the persistently strong market demand for residential housing. Taking these factors into consideration, the residential market will decline to approximately 240,000 starts for year 1973.

The proposed amendments (Bill C-133) to the National Housing Act, which are designed to bring good housing within the reach of more Canadians, and to promote rehabilitation of older homes, could prove to be a very significant piece of legislation to our industry. Specifically, the Land Assembly Program and the New Communities Program would be backed by a federal government commitment to make at least \$100 million a year available for the next five years for the public assembly of land. Such a move could reduce land prices, thereby making a direct contribution to the continuing demand for housing and products made by your company.

World environmental concern has increased the amount of research and product development effort by our Engineered Products Group towards the abatement of vapours into the atmosphere during the transfer of petroleum products.

Tangible evidence of this concern in Canada is reflected in the recently formed PACE — The Petroleum Association for Conservation of The Canadian Environment — which provides the planning and technological innovations that are essential to the achievement of its anti-pollution objectives. In the U.S.A., major oil companies have responded to federal and state emission control regulations and are actively supporting the development of vapour recovery equipment. Several companies are associated closely with our U.S. company in field-testing product prototypes. We anticipate increasing opportunities for growth in the area of



vapour recovery.

At the annual meeting of the shareholders, held in May last year, Mr. E. C. Phillips was elected to the Board of Directors to fill the vacancy created by the retirement of the Hon. Louis P. Gelinas. Mr. Phillips is President of West-coast Transmission Company Limited, Vancouver, B.C. The Board has regretfully accepted the resignation of J. H. Stevens, who joins C. H. Ivey as an Honorary Director of the Company. Between them, they have served Emco for over 110 years.

We enter 1973 with a strong backlog of orders, both in Canada, the U.S. and overseas. The plant move from Union to Conneaut is nearly completed, and we expect 1973 to produce significantly improved results over previous years.

We would like to acknowledge the loyalty and outstanding services of Emco employees throughout the world who are dedicated to producing improved results for our shareholders.

On behalf of the Board

P. J. Ivey C. N. Chapman

London, Canada, March 14, 1973

Directors

John W. Adams, F.C.A.,
London, Ontario
Executive Vice-President and
Treasurer, Emco Limited

C. Norman Chapman,
London, Ontario
President and General Manager
Emco Limited

W. Harold Evans,
Toronto, Ontario
Retired Chairman,
Honeywell Limited

C. H. Ivey, London, Ontario
Retired Chairman,
Emco Limited (Honorary)

C. Robert Ivey, Toronto, Ontario
President,
Pebojo Holdings Limited

Peter J. Ivey, London, Ontario
Chairman, Chief Executive Officer
Emco Limited

***Peter N. Jaffray**
Toronto, Ontario
Vice-President & Director,
Dominion Securities
Corporation Limited

Frederick W. P. Jones,
London, Ontario
Professor, School of Business
Administration, The University of
Western Ontario

Ralph S. MacLean,
London, Ontario
Vice-President, Plumbing &
Industrial Group, Emco Limited

Edwin C. Phillips,
Vancouver, British Columbia
President, Westcoast
Transmission Company
Limited

William G. Poy, Toronto, Ontario
Business Consultant

W. Jackson Schultz,
Short Hills, New Jersey
Senior Vice-President,
Emco Wheaton Inc.

John H. Stevens,
London, Ontario
Retired Chairman,
Emco Limited (Honorary)

David B. Weldon,
Toronto, Ontario
Chairman of the Board and
President, Midland-Osler
Securities Limited

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C. Norman Chapman
President and General Manager
John W. Adams, F.C.A.,
Executive Vice-President
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Vice-President,
Engineered Products Group
Ralph S. MacLean
Vice-President,
Plumbing & Industrial Group
Stuart F. Smith
Vice-President,
General Manufacturing Division
A. Robert Martin, C.A.,
Director,
Corporate Development & Secretary
William M. Eager,
Assistant Treasurer

Transfer Agents & Registrars

Royal Trust Company,
Toronto, Montreal and Winnipeg
(5^{3/4}% debentures, 7% convertible
debentures and common shares)
The Canada Trust Company,
Toronto, Montreal and Winnipeg
(9^{3/4}% debentures)

Auditors

Peat, Marwick, Mitchell & Co.,
London, Canada

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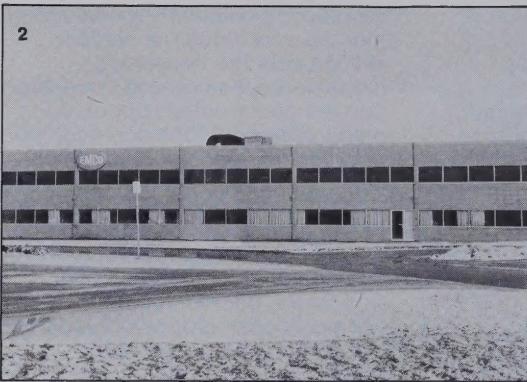
Annual Meeting

The Annual Meeting of the
Shareholders of the Company will
be held at Centennial Hall, 550
Wellington Street, in London at 11:00
A.M., on Wednesday, May 16, 1973.

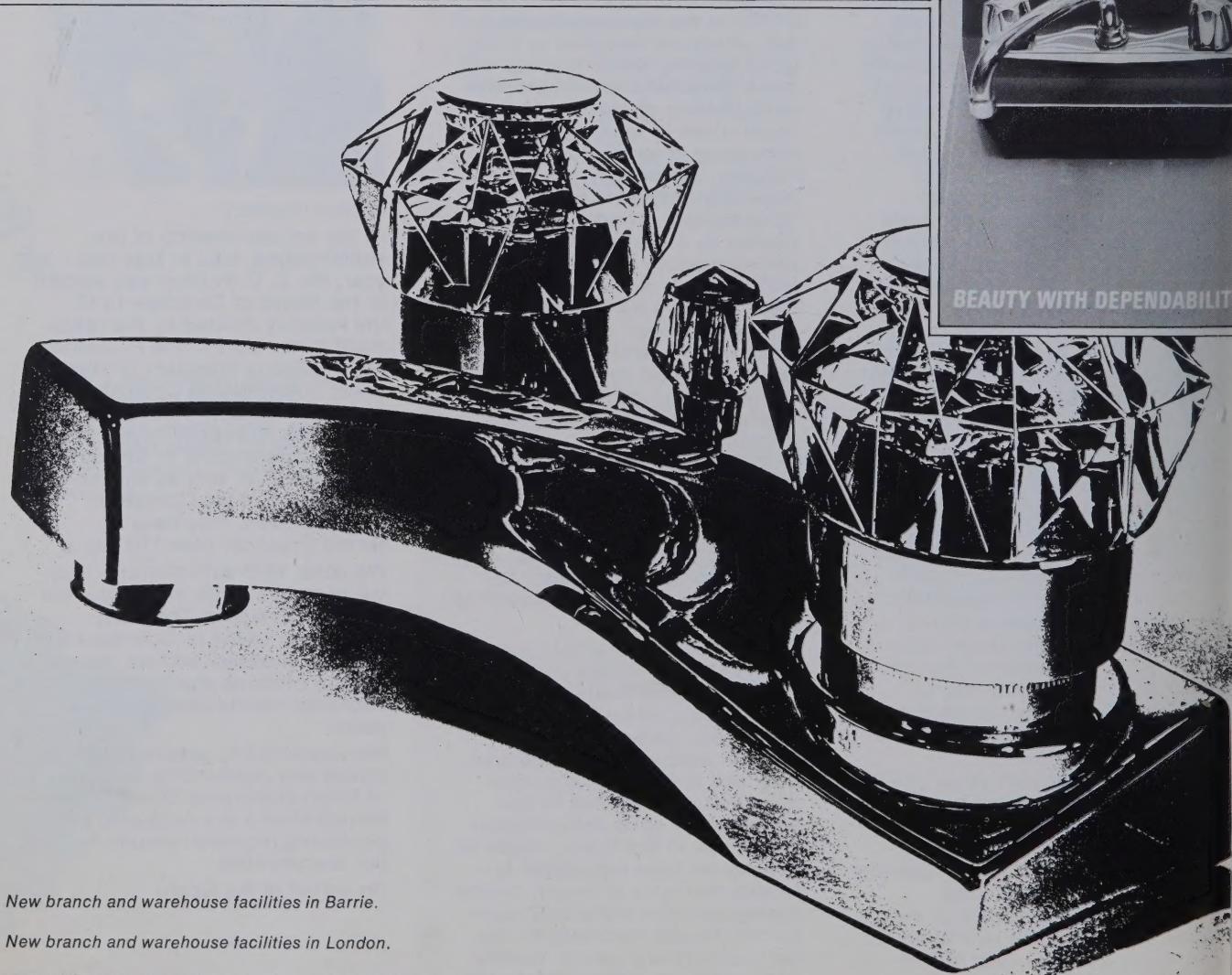
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2



4



EMCO



sapphire
corona



BEAUTY WITH DEPENDABILITY

1. New branch and warehouse facilities in Barrie.

2. New branch and warehouse facilities in London.

3. Attractive point-of-purchase displays were distributed to all customers.

4. The new Sapphire and Corona lines of bathroom and kitchen faucets were introduced to the market during 1972.

Review of Operations

PLUMBING AND INDUSTRIAL GROUP

In line with its strategy for deeper penetration into the expanding construction industry, the Plumbing and Industrial Group continued to introduce new products and improve distribution facilities. This effort was backed by plant modernization and improved productivity.

New Products

Sapphire and Corona, our new lines of bathroom and kitchen faucets, were introduced to the market during the year. This product launch took the form of a coast-to-coast road show covering thirty-five major centres across Canada. Through product displays and demonstrations, the show gave wholesalers and consulting engineers a first-hand account of both the new and continuing product lines such as institutional and laboratory fixture trim. The projected trend towards the use of non-metallic materials in products for the industry was reflected in the presentation of the new Emco Pres-Oseal pipe fittings which are made from a high temperature thermoplastic compound especially suitable for hot and cold water distribution systems.

Marketing Structure Change

Changes were also made in the marketing network and distribution facilities. In order to bring the policy-making function closer to the end point of marketing objectives, the Supply Division's operating control was decentralized with the creation of three marketing regions. Each area is headed by a thoroughly experienced regional manager. This structure provides for greater delegation of decision making authority to the grass roots level and improves the division's ability to develop and deploy marketing strategies that are more closely aligned to the constantly changing needs and patterns of local markets.

Distribution Facilities

Warehouses in London and Barrie have been replaced by new and larger branch buildings to meet the current business activity and provide facilities for the projected area growth. The 24,000 sq. ft. addition to the Toronto operation was completed last spring. This enlargement to the Weston building provided the needed facilities that are so essential to the continuing business pace in southern Ontario.

During the latter part of the year, our operations in Toronto were consolidated by amalgamating Hamilton Branch and Traders' Plumbing and Heating Supplies in Don Mills with the Weston operation. The pooling of resources in these three marketing areas has improved customer service and, through a fuller utilization of facilities, economies in operation have been achieved. This step, marking a major change in the company's distribution pattern, is closely keyed to the rapid growth of the construction industry in the area and is fully supported by an almost round-the-clock warehouse and truck fleet service.

Manufacturing Facilities

While sharpening its marketing tools, the Plumbing and Industrial Group continued to study and implement changes in its manufacturing facilities for modernization, expansion and improved productivity. These were in focus with long range objectives of production and changing technology.

Our new and larger plastics plant in Brampton, Ontario, equipped with modern, high speed automatic machines went into full scale production last March. While taking advantage of our lead as the first in Canada to successfully mould and chrome plate plastics for plumbing, we have also extended our expertise to other fields. The plant has built up a sizeable business in custom moulding for customers in Canada and the U.S.A. The custom moulded parts and sub-assemblies are in a variety of thermoplastics.

Another major expansion was in London Factory's plating department, where production capacity was stepped up two-and-a-half times. This increase was achieved by replacing the pilot plant in the pre-plating section with a full-scale plant. Pre-plating is a process for treating plastics to accept electroplating. Additional space for the expansion was created by moving the polishing and buffing operations for electroplating metallics to a newly built extension at the north end of the factory. This extension, covering 8,000 sq. ft., also houses a new laboratory and related plating plant service equipment such as rectifiers, boilers and compressors.

Company concern for the protection of environment is reflected in a pollution control system set up in mid 1971 for neutralizing effluent water and acid fumes from the plating plant. A study of the control system has disclosed a substantial reduction in air and water pollution.

Review of Operations



ENGINEERED PRODUCTS GROUP

The combined sales for the Group in 1972 were 1% below sales in 1971. This was due largely to the cut-back in capital expenditures by our oil industry customers, particularly in Europe. However, this situation changed rapidly towards the end of 1972, and the orders on hand for the Group are at an all-time high as we enter 1973. Throughout the year considerable emphasis was placed on improvements to existing products and continued product development particularly in the area of vapour recovery systems. Modernization of European plant facilities and consolidation of our twin plant operation in the U.S.A. will provide the framework for a substantial improvement in productivity and performance within the Group.

Product Development

Our Research and Development Centre in the U.K. now has completed a broad line of marine loading arms and, with this excellent range of products, we have prospects for substantial sales of marine arms in 1973. The regulation of vapour emission in the United States has opened a new market for vapour recovery systems in the distribution of gasoline. Vapour recovery, as the term implies, is a system for recovering the vapours normally lost to the atmosphere in the transfer of gasoline from tank trucks to underground storage tanks at service stations. The success in the development of such systems in the United States could well determine the speed with which other countries adopt pollution control measures in the area of petroleum marketing.

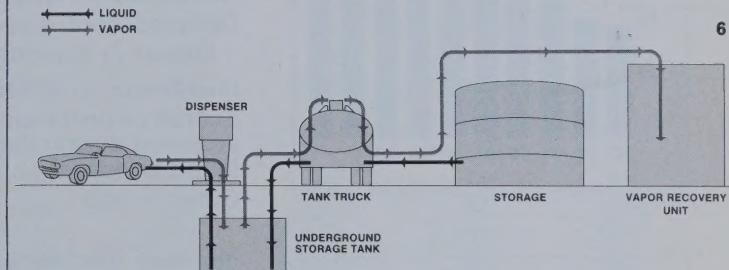
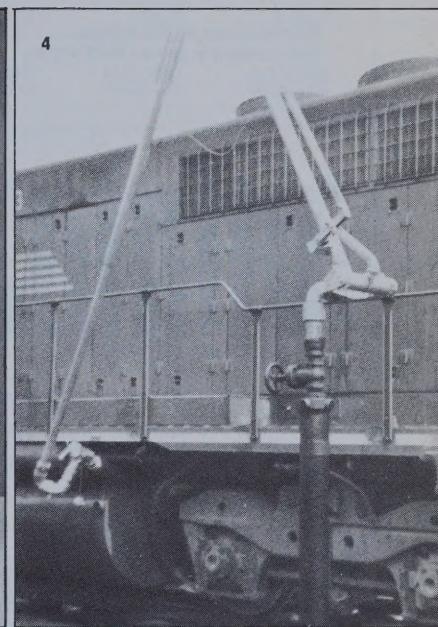
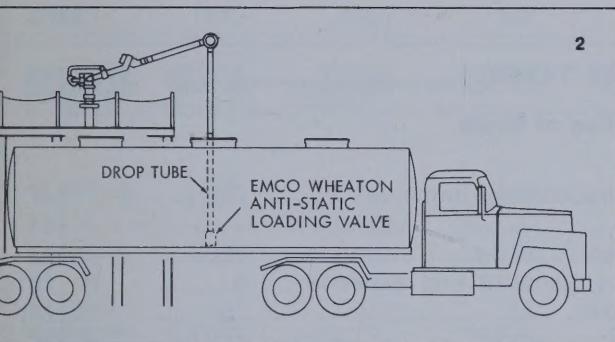
While making significant advances in this area, the Group continued product developments and improvements in the more traditional areas extending its product range and marketing scope. Among these were anti-static valves, hose loaders, bottom loading equipment and railroad fueling nozzles.

Facilities

The divisions located in Canada, Japan and France continue to exceed expectations. The extensive growth of business in our French division has created the need for larger facilities and construction, which began in the Fall, 1972, will be completed about June of 1973.

Completion of the construction program in England has improved production and increased the flexibility for the continued growth of the marine arm product line. The consolidation of our manufacturing operations in the United States was undertaken towards the latter part of 1972. This move was completed on schedule in an efficient manner due to the planning and coordination of effort on the part of the management and employees. All plant facilities are now located in Conneaut, Ohio.

Good progress has been made in the coverage of export markets throughout the world and overall there is reasonable evidence of the emergence of a firm demand. While the constant adjustment of world currencies is unsettling, it would appear that a net benefit will result for the Group in terms of competitive pricing and currency revaluations.



1. Several of the 22 Niagara marine arms supplied to Esso AG/Hamburg. (Opposite page)

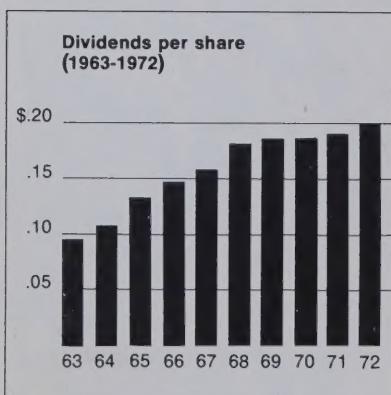
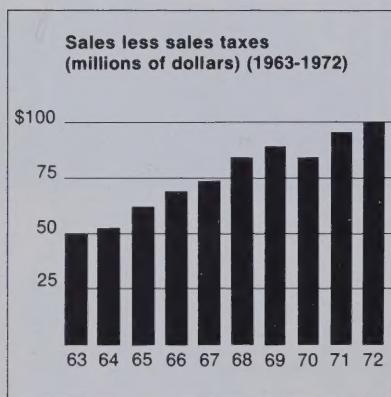
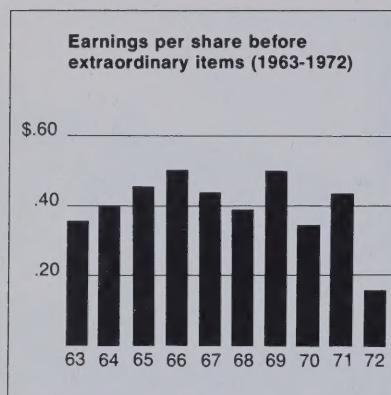
2 & 3. The anti-static valve was developed to increase the margin of safety through reduction of electrostatic charges by controlling flow velocity during top loading of tank trucks.

4. This railroad fueling system is being used to fuel 25 to 50 locomotives a day.

5. Complementing our fluid transfer equipment, the new hose loader series adds flexibility to our bottom loading systems.

6. Vapor recovery systems have been engineered for installation at service stations and bulk terminals.

Ten Year Financial Summary



	1972
SALES, LESS SALES TAXES.....	\$100,542
Source and application of funds	
Funds provided	
Earnings before extraordinary items.....	\$ 547
Extraordinary items	104
Depreciation charged.....	1,133
Amortization of debt discount and expense	16
Deferred income taxes.....	(24)
Cash earnings	1,776
Issue of common shares.....	34
Minority interests	14
Increase in long-term debt	—
	1,824
Funds used	
Capital expenditures — net.....	2,270
Redemption of second preference shares	—
Dividends — second preference.....	—
Dividends — common.....	756
Reduction in long-term debt.....	157
Deferred debt discount and expense.....	—
Increase in investment in 50% owned company	33
Investment in other companies.....	—
Excess of purchase price of subsidiary companies acquired during the year over value of underlying net tangible assets	214
Other — net	(2)
	3,428
Increase (decrease) in working capital.....	\$ (1,604)
Working capital at December 31	\$ 23,578

Common share results		
Before extraordinary items		
Net earnings.....	\$.14	.14
Cash earnings44	.44
Including extraordinary items		
Net earnings17	.17
Cash earnings47	.47
Net worth at December 31	5.20	5.20
Dividends paid.....	.20	.20
Return on shareholders' equity at January 1 (based on earnings before extraordinary items).....	% 2.7	% 2.7

1971	1970	1969	1968	1967	1966	1965	1964	1963
<u>95,926</u>	<u>83,810</u>	<u>89,380</u>	<u>83,399</u>	<u>74,325</u>	<u>72,331</u>	<u>60,692</u>	<u>54,280</u>	<u>50,988</u>
1,679	1,241	1,782	1,495	1,644	1,993	1,751	1,500	1,311
—	—	1,649	—	84	192	103	161	—
985	930	1,087	1,018	785	734	657	605	545
18	6	—	—	—	—	—	—	—
92	101	(44)	34	—	—	—	—	—
2,774	2,278	4,474	2,547	2,513	2,919	2,511	2,266	1,856
41	91	2	33	88	87	29	15	53
6	(1)	(9)	(38)	(371)	69	363	16	(5)
<u>6,000</u>	<u>5,000</u>	<u>—</u>	<u>—</u>	<u>3,867</u>	<u>—</u>	<u>6,561</u>	<u>—</u>	<u>—</u>
<u>8,821</u>	<u>7,368</u>	<u>4,467</u>	<u>2,542</u>	<u>6,097</u>	<u>3,075</u>	<u>9,464</u>	<u>2,297</u>	<u>1,904</u>
1,791	926	1,742	1,797	2,402	1,903	594	1,238	745
—	442	239	297	357	298	234	185	94
—	7	17	25	35	45	53	59	63
723	689	687	686	623	554	488	425	362
1,543	3,605	638	258	948	561	184	220	113
235	259	—	—	—	—	—	—	—
23	9	24	13	7	20	5	6	7
—	—	—	—	(54)	(84)	(72)	4	192
—	—	—	—	1,115	—	—	—	—
(51)	(38)	(6)	(88)	142	77	(67)	95	(19)
<u>4,264</u>	<u>5,899</u>	<u>3,341</u>	<u>2,988</u>	<u>5,575</u>	<u>3,374</u>	<u>1,419</u>	<u>2,232</u>	<u>1,557</u>
<u>4,557</u>	<u>1,469</u>	<u>1,126</u>	<u>(446)</u>	<u>522</u>	<u>(299)</u>	<u>8,045</u>	<u>65</u>	<u>347</u>
<u>25,182</u>	<u>20,625</u>	<u>19,156</u>	<u>18,030</u>	<u>18,476</u>	<u>17,954</u>	<u>18,253</u>	<u>10,208</u>	<u>10,143</u>
.45	.33	.47	.39	.43	.53	.46	.40	.34
.74	.60	.74	.67	.64	.74	.64	.58	.49
.45	.33	.91	.39	.45	.58	.49	.44	.34
.74	.60	1.18	.67	.65	.79	.67	.62	.49
5.27	5.02	4.88	4.15	3.88	3.91	3.50	3.17	2.85
.18 ^{3/4}	.18 ^{1/3}	.18 ^{1/3}	.18	.16 ^{1/4}	.14 ^{1/2}	.13	.11 ^{1/4}	.09 ^{1/2}
8.9	6.7	11.3	10.0	11.0	15.1	14.6	13.9	13.2

Note: Amounts shown above are thousands of dollars with the exception of data under the heading Common share results. Common share results reflect the 3 for 1 subdivision effective July, 1971 and the 2 for 1 subdivision effective May, 1965. Prior years' results have been restated to reflect the change in the method of accounting outlined in note 1 to the financial statements.

EMCO LIMITED AND SUBSIDIARIES
Consolidated Balance Sheet

December 31, 1972
 with comparative figures for 1971

Assets	1972	1971
Current assets:		
Cash.....	\$ 138,708	142,384
Marketable securities, at cost (quoted value \$152,038; 1971, \$131,150).....	144,833	144,833
Trade accounts receivable, less allowance for doubtful accounts (\$819,665; 1971, \$606,963)	13,903,247	13,456,682
Inventories at the lower of cost or net realizable value.....	26,919,328	24,580,166
Prepaid expenses	527,239	345,234
 Total current assets	 41,633,355	 38,669,299
 Long-term receivables.....	 114,657	 117,708
Investment in 50% owned company (note 1).....	159,000	126,000
Property, plant and equipment, at cost less depreciation (note 2).....	11,579,622	10,442,274
Unamortized debit discount and expense (note 3).....	452,148	469,972
Deferred income taxes	103,294	30,388
 \$ 54,042,076	 49,855,641	

See accompanying notes to financial statements.

On behalf of the Board:

P. J. IVEY, Director

J. W. ADAMS, Director

Liabilities		1972	1971
Current liabilities:			
Bank indebtedness	\$ 7,437,562	3,977,216	
Accounts payable and accrued expenses	8,625,091	7,497,439	
Dividends payable.....	189,120	188,867	
Current portion of long-term debt..	19,523	18,558	
Income and other taxes payable....	1,784,517	1,805,523	
 Total current liabilities.....	 18,055,813	 13,487,603	
 Long-term debt (note 3).....	 16,233,215	 16,391,321	
Minority interest in subsidiary company.....	77,880	63,641	
 Shareholders' equity:	 		
Capital stock (note 4).....	574,120	540,490	
Retained earnings.....	19,101,048	19,372,586	
 Total shareholders' equity.....	 19,675,168	 19,913,076	
 \$ 54,042,076	 49,855,641		

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Emco Limited and subsidiaries as of December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, after giving retroactive effect to the change in the method of accounting for the investment in a 50% owned company described in note 1 to the consolidated financial statements, have been applied on a basis consistent with that of the preceding year.

London, Ontario
March 14, 1973

Peat, Marwick, Mitchell & Co.
Chartered Accountants

EMCO LIMITED AND SUBSIDIARIES

Consolidated Statement of Earnings

Year ended December 31, 1972
with comparative figures for 1971

	1972	1971
Sales, less sales taxes:		
Plumbing and industrial group.....	\$ 84,949,425	80,151,800
Engineered products group.....	15,592,844	15,774,519
	<hr/> \$100,542,269	<hr/> 95,926,319
 Operating profit after minority shareholders' interest but before the undernoted items.....	 \$ 4,961,306	 5,623,597
Investment income	9,027	10,994
Equity in earnings of 50% owned company (note 1).....	33,000	23,000
	<hr/> 5,003,333	<hr/> 5,657,591
 Deduct:		
Depreciation.....	1,133,340	985,268
Interest on bank and other short-term advances	465,221	324,743
Interest on long-term debt.....	1,233,387	1,041,603
Currency exchange adjustment (note 1).....	85,417	(221,708)
	<hr/> 2,917,365	<hr/> 2,129,906
 Earnings before taxes on income...	 2,085,968	 3,527,685
 Taxes on income (note 6):		
Current	1,563,000	1,757,000
Deferred.....	(24,000)	92,000
	<hr/> 1,539,000	<hr/> 1,849,000
 Earnings before extraordinary item	 546,968	 1,678,685
Extraordinary item — net gain on sale of property and plant.....	103,662	—
 Net earnings.....	 \$ 650,630	 1,678,685
 Earnings per common share (note 5):		
Before extraordinary item	14.5¢	44.5¢
Extraordinary item	2.7	—
 Including extraordinary item.....	 17.2¢	 44.5¢

See accompanying notes to financial statements.

EMCO LIMITED AND SUBSIDIARIES
Consolidated Statement of
Retained Earnings

Year ended December 31, 1972
 with comparative figures for 1971

	1972	1971
Amount at beginning of year as previously reported	\$ 19,276,586	18,344,122
Add adjustments to reflect adoption of the equity method of accounting for the investment in a 50% owned company (note 1)	96,000	73,000
<hr/>		
As restated.....	19,372,586	18,417,122
Add net earnings.....	650,630	1,678,685
<hr/>		
	20,023,216	20,095,807
<hr/>		
Deduct:		
Dividends on common shares.....	756,481	723,221
<hr/>		
Excess of purchase price of business acquired during the year over values ascribed to the underlying net tangible assets (net of related income tax benefits of \$54,313 of which \$48,906 is deferred) (note 1)	165,687	—
<hr/>		
	922,168	723,221
<hr/>		
Amount at end of year.....	\$ 19,101,048	19,372,586
<hr/>		

See accompanying notes to financial statements.

EMCO LIMITED AND SUBSIDIARIES

**Consolidated Statement of Source
and Application of Funds**

Year ended December 31, 1972
with comparative figures for 1971

	1972	1971
Funds provided:		
Net earnings.....	\$ 650,630	1,678,685
Deduct net gain on sale of property and plant	103,662	—
	546,968	1,678,685
Add (deduct):		
Depreciation.....	1,133,340	985,268
Amortization of debt discount and expense	16,454	18,060
Deferred income taxes	(24,000)	92,000
	Funds provided from operations	1,672,762
	2,774,013	
Issue of 7% convertible debentures	—	6,000,000
Issue of common shares.....	33,630	40,675
Decrease in long-term receivables..	3,051	51,373
Proceeds on disposal of property and plant.....	426,686	—
Increase in minority interest in subsidiary company.....	14,239	6,095
	Total funds provided.....	2,150,368
	8,872,156	
Funds used:		
Property, plant and equipment.....	2,593,712	1,791,215
Reduction in long-term debt:		
7% convertible debentures less applicable debt discount of \$1,370 (note 3).....	33,630	—
Other	123,106	1,543,147
Dividends on common shares.....	756,481	723,221
Debt discount and expense.....	—	234,840
Increase in investment in 50% owned company.....	33,000	23,000
Excess of purchase price of business acquired during the year over values ascribed to the underlying net tangible assets (net of related income tax benefits) (note 1).....	165,687	—
Income tax benefits relating to business acquisition deferred to future years	48,906	—
	Total funds used	3,754,522
	4,315,423	
Increase (decrease) in working capital	\$ (1,604,154)	4,556,733
Working capital at end of year	\$ 23,577,542	25,181,696

See accompanying notes to financial statements.

EMCO LIMITED AND SUBSIDIARIES
Notes to Financial Statements

December 31, 1972

1 Principles of consolidation and basis of presentation:

The accompanying financial statements consolidate the accounts of all subsidiary companies and all material intercompany balances and transactions have been eliminated.

The accounts of the subsidiary companies located outside Canada have been translated to Canadian dollars as follows: current assets, current liabilities and long-term debt — at rates current at the year end; fixed assets — at rates current on dates of acquisition; accumulated depreciation and related provisions against income — on the basis of dollar value of related assets; and operating income and other expenses — at average rates for the year. Exchange gains or losses resulting from such translation practices are reflected in the consolidated statement of earnings.

Had the accounts of the subsidiary companies located outside Canada been translated to Canadian dollars using rates current as at March 14, 1973, where applicable, the currency exchange adjustment for 1972 would have resulted in a gain of approximately \$83,000.

The investment in net assets at the end of 1972 was geographically distributed approximately as follows:

Canada and United States	\$ 15,285,000
Europe	3,257,000
Japan and Australia	1,133,000

In 1972, the company adopted the equity method of accounting for an investment in a 50% owned company. Under this method, the company's equity in the net income of the 50% owned company is included currently in the consolidated statement of earnings rather than when realized through dividends and the investment is carried in the consolidated balance sheet at cost plus the company's equity in undistributed earnings of the 50% owned company since acquisition of the investment. As a result of this change, which was adopted retroactively to the date of acquisition of the investment, net earnings for 1972 and 1971 (as restated) have been increased by \$33,000 and \$23,000 respectively, and retained earnings at December 31, 1972 are greater by \$129,000.

During the year a subsidiary acquired the assets and operations, subject to liabilities, of a manufacturing company for a cash consideration of \$1,094,000. The net assets acquired in the transaction are summarized approximately as follows:

Net assets at the book value of the seller:

Current Assets	\$ 612,000
Less current liabilities	84,000
	528,000
Property, plant and equipment	245,000
	773,000
Adjustment of property, plant and equipment to fair value	101,000
	874,000
Excess of purchase price over the values ascribed to the net tangible assets — charged to retained earnings	220,000
	\$ 1,094,000



EMCO LIMITED AND SUBSIDIARIES**Notes to Financial Statements**

December 31, 1972

2 Property, plant and equipment:

	1972	1971
Buildings and roadways	\$ 10,582,880	9,876,281
Machinery and equipment.....	10,766,044	9,628,932
	21,348,924	19,505,213
Less accumulated depreciation.....	10,984,959	10,150,819
	10,363,965	9,354,394
Land	1,215,657	1,087,880
	\$ 11,579,622	10,442,274

Depreciation is generally provided on a straight line basis over the estimated useful lives of the assets.

3 Long-term debt:

Emco Limited:	1972	1971
5 ^{3/4} % sinking fund debentures, due June 15, 1985.....	\$ 4,892,000	4,992,000
9 ^{3/4} % sinking fund debentures, due July 15, 1990	5,000,000	5,000,000
7% convertible sinking fund debentures, due August 1, 1991	5,965,000	6,000,000
United States subsidiary:		
6% mortgage note payable in monthly instalments of principal and interest of \$3,585 U.S., due August 1, 1980 (U.S. \$398,127)	395,738	417,879
	16,252,738	16,409,879
Less amounts due within one year included with current liabilities.....	19,523	18,558
	\$ 16,233,215	16,391,321

Debenture debt falling due or to be met out of sinking fund payments in the five years ending December 31, 1977, after taking into account the principal amount of debentures repurchased by the company which have been tendered to the trustee in respect of future sinking fund payments, are as follows:

	5 ^{3/4} %	9 ^{3/4} %	7%
1973	\$ —	—	—
1974	61,000	—	—
1975	187,000	—	—
1976	197,000	172,000	—
1977	209,000	182,000	—

The unamortized debt discount and expense relating to the 9^{3/4}% sinking fund debentures is being amortized over the term of the debentures using a sum of the digits method. The debt discount and expense relating to the 7% convertible sinking fund debentures (at December 31, 1972, \$233,470 after deducting related income tax savings) will be deducted from capital on the conversion of the debentures.

Notes to Financial Statements

December 31, 1972

4 Capital stock:**(a) Authorized, issued and outstanding:**

	Number of shares as at December 31, 1972	
	Authorized	Issued
First preference shares with a par value of \$100 each.....	150,000	—
3% cumulative redeemable second preference shares with a par value of \$10 each	61,600	—
Common shares without nominal or par value	12,000,000	3,782,405

The outstanding share capital is as follows:

	1972	1971
First preference shares	\$ —	—
3% second preference shares.....	—	—
Common shares.....	574,120	540,490
	\$ 574,120	540,490

(b) Share options:

In 1960 and 1969 share option plans were established for certain executives whereby authorized and unissued common shares were reserved for issue under the plans.

As at December 31, 1972, the following is a summary of the plans:

Shares under option at December 31, 1971	29,925
Options expired during 1972.....	1,500
Shares under option at December 31, 1972	28,425
Shares available for future options.....	150,600

The shares under option are exercisable as undernoted:

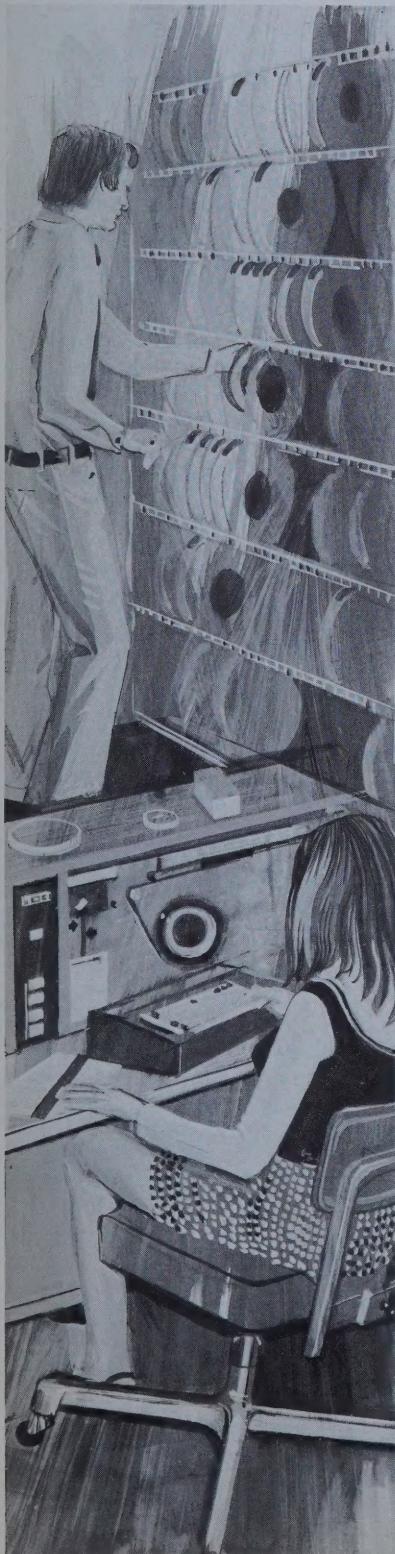
Expiry Date	Option Price Per Share	No. of Shares
December 31, 1973.....	\$ 6.00	1,500
March 11, 1975.....	4.917	6,000
December 31, 1975.....	4.79	4,800
August 20, 1977	5.066	16,125
		28,425

(c) Share purchase plan:

During 1968, a share purchase plan was approved whereby the employees of the company and its subsidiaries (excluding officers and directors of Emco Limited) may purchase common shares of the company. As at December 31, 1972, there were 128,145 shares available for future subscriptions. There were no transactions during 1972.

(d) Dividend restrictions:

The trust deeds relating to the debentures each contain provisions whereby dividends may not be declared or paid, other than stock dividends, and the company may not effect any reduction to its capital stock which would reduce net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1972 the net current assets and shareholders' equity (as so defined) were substantially in excess of minimum levels.



Notes to Financial Statements

December 31, 1972

4 Capital stock (continued):

(e) Conversion privilege:

The 7% convertible sinking fund debentures are convertible into common shares without par value in the capital of the company at any time prior to the close of business on August 1, 1974, on the basis of 145 common shares for each \$1,000 principal amount of debentures; and thereafter and at any time prior to the close of business on August 1, 1977, on the basis of 127 common shares for each \$1,000 principal amount of debentures; and thereafter and at any time prior to the close of business on August 1, 1980, on the basis of 112 common shares for each \$1,000 principal amount of debentures.

During 1972, \$35,000 7% debentures were converted into 5,075 common shares and the par value of the debentures converted, less the applicable unamortized debt discount and expense was added to the paid up value of the common shares in the capital stock of the company.

For debentures converted into common shares prior to the close of business on August 1, 1974, common share purchase warrants will be issued on the basis of 50 warrants for each \$1,000 principal amount of debentures so converted entitling the holder of such warrants to purchase one new common share for each warrant held at a price of \$7.87 per share, at any time prior to the close of business on August 1, 1977, and thereafter and at any time prior to the close of business on August 1, 1980 at a price of \$8.93 per share. To December 31, 1972, 1,750 warrants had been issued and were outstanding at that date.

The company has covenanted to reserve a sufficient number of common shares to be available for conversion of the 7% debentures and for issue upon exercise of the common share purchase warrants.

5 Net earnings per share:

Net earnings per share are calculated using the weighted monthly average number of common shares outstanding.

No dilution of earnings per share results from the assumption that all options outstanding at the end of the year with respect to common shares were exercised at the beginning of the year, that all warrants, conversion privileges and related rights to warrants outstanding at the end of the year with respect to common shares were exercised at the beginning of the year; and that funds derived therefrom had been invested to produce an annual rate of 6% before applicable income taxes. The amount of earnings imputed, after income taxes, was \$75,126.

6 Taxes on income:

Certain subsidiaries suffered operating losses during 1972 and such losses do not result in any current recovery of income taxes. The potential income tax benefits associated with such operating losses and with the operating losses of certain subsidiaries in prior years are not recognized in the accounts. These operating losses, which aggregate approximately \$1,740,000 are available to reduce taxable income which might otherwise be reported in certain future years; the availability of these losses for that purpose expires as to \$3,000 in 1973, \$3,000 in 1974, \$120,000 in 1975, \$420,000 in 1976 and \$1,194,000 in 1977.

7 Directors and senior officers remuneration:

The aggregate direct remuneration paid or payable by the company to directors and senior officers was \$361,800 for the year ended December 31, 1972 (1971 — \$339,203).

8 Pension costs:

The liability for past services under the company's pension plans amounts to approximately \$506,000 and this liability is being discharged by cash payments which will fully discharge the liability over a maximum period of twenty-six years. The annual payments, which are charged to operations currently, amount to approximately \$69,000. Pension costs for current service are paid and charged against earnings in the year in which they are incurred.

Emco Limited

Executive Offices
London, Canada

Plumbing and Industrial Group

Divisions

Emco Supply — regional offices, Montreal, Toronto, Calgary; Twenty-seven branches across Canada distributing plumbing, heating and industrial piping supplies to mechanical contractors and industry.

Barrie	Peterborough
Belleville	Prince George
Burnaby	Quebec
Calgary	Regina
Edmonton	Saint John
Guelph	Saskatoon
Halifax	Sault Ste. Marie
Hull	St. Catharines
Kitchener	Sudbury
Lethbridge	Toronto (Weston)
London	Ville de Brossard
Montreal	Windsor
Oshawa	Winnipeg
Ottawa	

General Manufacturing — London Factory, London, Canada—manufacturer of plumbing, heating and industrial piping products for sale to distributors.

— Emco Plastics Limited, Brampton, Ontario — manufacturer of plastic plumbing and piping components.

Canadian Clyde Tube Forgings Limited, Toronto, Canada — distributor of steel welding fittings for industry.

Branches —
Montreal, Vancouver

Engineered Products Group

Manufacturers and distributors of engineered fluid-handling equipment for the oil and petrochemical industries. These specially designed products include engineered loading and unloading equipment for tank truck and bulk terminals, service station equipment, fleet fueling systems and marine loaders for transferring liquid cargoes to and from supertankers.

Divisions

Research and Development Centre — Margate, England

Wheaton Australia Pty. Limited — Sydney, Australia

Emco Wheaton U.K. Limited — Margate, England

Emco Wheaton S.A. — Paris, France

Emco Wheaton GmbH (76% owned) — Kirchhain, West Germany

Emco Wheaton Inc. — Conneaut, Ohio, United States

Emco Wheaton (Japan), Limited — Yokohama, Japan

Emco-Wheaton Limited — Toronto, Canada;
Branches —
Montreal, Calgary, Burnaby



EMCO Emco Limited

Box 5300, London 12, Canada

Subsidiaries in Australia, Canada, France, Great Britain, Japan, the United States, and West Germany